ORIGINAL

Tonto Village
Domestic Water Improvement District
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October 13, 2008

Arizona Corporation Commission
1200 W. Washington,
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Attention: Docket Control, Commissioners, and Staff

Re: Comments Related to Decision No. 70465 under Application for Rate Increase for Tonto Village Water Co., Inc. Docket No. W-01580A-04-0672

Ladies and Gentlemen:

At the encouragement of Tonto Village Water Co. ("Company") over the last 18 months, the Tonto Village Domestic Water Improvement District ("District") has been actively pursuing the acquisition of the operating assets of the Company in order to realize the goal of an adequate, reliable, and safe water supply for the community.

This letter to you is intended to be a status report on progress toward that goal and to make you aware of the problems the District and the Company are having in reaching an agreement. In addition, the District wishes to have the Commission closely monitor the appropriateness of funds expended for the new well you have ordered drilled, and for other major expenditures the company may make for which they have indicated they will seek recovery for, in terms of future rate increases.

General History

Over 18 months ago, the Company owners asked the residents to take steps to activate the District in order to consummate a sale of the system. With the help of the Gila County Board of Supervisors acting as the Board of the District, residents agreed to a tax levy to fund the District and to hold an election in November '07. Elections were held and a

Board took office. This local Board of Directors was to pursue the purchase transaction in behalf of the rate-payers. The Board began to work towards this goal starting in late January '08.

In the spring of '08, the Company cooperatively agreed to let the District, at its cost, to gain access to the facilities to carry out a relatively thorough inspection of the infrastructure, with resulting reports to be supplied to the Company prior to any release of the reports to the public or other entities. The electrical systems report indicated numerous problems with wiring, control panels, and worker safety. The operational report indicated poor infrastructure in terms of leaking tanks, water main quality and repair procedures, chlorination equipment, and system reliability, mainly resulting from deferred maintenance of facilities and equipment. Adequacy of water resources, inadequate storage tank capacity, potential well interference, and cross contamination from septic systems were major concerns of the hydrogeologist. Estimates of repair costs to bring the system up to ADEQ and reasonable municipal standards were made by Tetra Tech Engineering, a firm that regularly does system engineering studies for WIFA. Reports from the professional investigation team members are attached hereto as Appendix 1.

To make up for the deferred maintenance (many years of neglect), the investigation team estimated an investment of nearly $300,000 would need to occur immediately (includes a new well as ordered by the ACC) for the District or any operator to be able to appropriately operate the system under the requirements imposed by the ACC and ADEQ. Another $400,000-$700,000 upgrade was estimated to be required over the following few years as various assets, such as substandard mains that may allow for cross-contamination from septic systems, are replaced.

And apparently, the Water Company has benefited greatly from the District's technical evaluation of the water system infrastructure. The Company now understands the specific deficiencies in their system, and now knows what needs to be fixed or upgraded.

Current Negotiating Efforts

Because the company owners refused for several months to quote any asking price (after saying they wanted to sell the company), the District finally completed its system inspection and proposed an asset purchase price of $50,000. The proposal was to encourage the Company owners to stand aside and let the District position itself to make an approximate $300,000 investment in the water system. After months of the Company (a) failing to dispute any aspects of the investigative reports, (b) refusing to provide any meaningful logic that the District's proposed price was inappropriate based on the facts of the situation, and (c) after indicating the proposed price and terms were insulting, the Company finally set an asking price of $600,000.

To put the Company's asking price in perspective, the $600,000 is more than four times the price per meter connection being offered by the Pine/Strawberry Water Improvement District for the Brooke Utilities systems in those two communities, and more than twice

the offer amounts by the Town of Star Valley for the small Brooke system in their town. With both of these systems having been professionally valued after extensive engineering and appraisal studies paid for by PSWID and Star Valley, and our District's reasonable belief that both of those systems (especially Star Valley) are in better physical shape than the TVWC system, the District and the Company are now at an impasse in negotiations (see Appendix 2 for the proposals and counterproposals).

Also effecting negotiations is the District's concerns related to Karen Barry's recent ADEQ inspection report dated October 6, 2008 which indicated the system does not "meet ADEQ monitoring and reporting requirements" and does not "meet ADEQ requirements for operations and maintenance of physical facilities". The report also concluded chlorine levels were far in excess of 4.0, the MCL (maximum level); and close to 10 at several locations including the Shelby School (double or more of the maximum allowed and 10 times the maximum level good operators try to maintain). Ms. Barry's conclusion that "the system does not have an approved plan for taking the disinfection byproduct samples and maximum residual disinfection level samples" adds to the District's concerns about acquiring the Company stock rather than its assets (a stock purchase would include the actual and potential liabilities, including those for harm to consumers). See Appendix 3 attached hereto for the ADEQ report.

Also, employee safety and OSHA concerns (see Patton Electric Report in Appendix 1) that currently exist also tend to make the District unwilling to significantly raise its original proposed price.

The District cannot tell for sure, but the fact that the land and wells do not belong to the Company may be adding to the inability of the parties (likely even among the sellers themselves) to reach any reasonable agreement as to price. This ownership issue, fully confirmed only recently (see Appendix 2 for E-mail to Harry Jones from John Gliege dated October 3, 2008 at lines 5-6) is confusing and surprising because the 2004 rate increase application, the recent annual reports, and the 12-27-07 rate increase application all show the wells, and presumably the land that the wells are on, to be owned, operated, and depreciated by the Company (see Appendix 4 for documents, all filed months and years prior to the Notice of Appearance of Mr. Gliege in these matters). Apparently, the wells and the land are actually owned by individuals or a separate entity other than the Company.

The District suspects that if the independent land/well owners believe there is significant value to the lands on which the wells and tanks are situated (because the land is located in the middle of a residential area), those property/well owners must take into account the fact there is significant negative value in the Company infrastructure because of required investment necessary to offset the deferred maintenance. If this suspicion is correct, for a transaction to ultimately materialize, the land owner group and water company owner group both need to view the overall sale transaction on a "total water system" basis. If any of the lands are removed from the proposed transaction, including well site #4, or the values of the lands that contain the wells and tanks are viewed simply as valuable residential lots rather than required system well sites, we can only conclude there is not a

water company for sale; but what is for sale is a company with a very poor piping and distribution system without a water supply, wells, or land.

Therefore, in light of what has occurred over the last year and after spending over $30,000 of District funds, the District has notified the Company that it will take a "wait and see" attitude (see attached letter dated October 13, 2008 in Appendix 2) related to the acquisition and operation of the water system.

Requested ACC Action

Within the Company's reply letters to the District dated September 9, 2008 and September 22, 2008, the Company indicated it would be drilling a new well and making other improvements so as to operate the system themselves or to seek another buyer. Because of past poor maintenance and control procedures and the out of compliance status at ADEQ (see Appendix 3), the District has notified the Company that it would request extensive ACC oversight of any major expenditure where the Company is likely to seek cost recovery through rate increases.

We specifically request the ACC staff, or outside professional engineers, hydrogeologist, etc. be immediately engaged to evaluate the well site location, well design, depth, aquifer characteristics, etc. to make sure the residents are protected now and in the future from inappropriate fixes, capital investments, and management actions, especially in terms of adequacy of water supplies, health matters, and system reliability. For the requested ACC oversight efforts, we recommend the Commission utilize all the inspection reports attached in Appendix 1, especially the report of Highland Water Resources Consulting (Michael Ploughe) when considering the appropriateness of Company actions to be taken in regards to the new well location, depth, design specifications, installation, testing procedures, and possible interference with the existing well #2. **This potential interference with the output of existing well #2 (which is already located where the "improved well" is to be located) is critical to evaluate immediately since we have been notified that the new well is to start being drilled on about 10-15-08** (see Appendix 5 for Company newsletters received by customers in September '08 and as of 10-13-08 item #4).

Also, we have been notified of the Water Company's intent for themselves (or any future prospective buyer of their system) to possibly sell what they term "excess" water to an external customer (outside of Company's CC&N) once the new well has been installed and made operational. This can only be perceived as a threat, and is a very valid concern to the existing Tonto Village property owners. Therefore, we ask that the ACC be aware of this and take any necessary action to protect the current and future ratepayers within the Village by maintaining water supplies up to the 100 year adequacy level..

Conclusions

The District's proposal is still on the table. The District is still the most logical buyer at a reasonable and justified price, and the potential buyer most willing to accept the huge risk related to required future improvements necessary to bring the water system up to a reasonable municipal standard. One of the worst things the District Board could do would be to commit the District members to a combination of purchase price, repairs, and infrastructure upgrades that exceeds a reasonable value or allows for rate increases that are not fair or affordable to the ratepayers. It seems District residents, through the Board of Directors and their own direct efforts, have done all they can to continue to carry out the requests the Company owners have made, and to negotiate in good faith.

As mentioned before, and over the next few months, the District will take a "wait and see" approach until it sees how the Company and the ACC choose to timely and adequately handle the very serious issues of availability of adequate water resources and the immediate concerns of the residents and ADEQ related to water quality, resident health, system reliability, and operator safety. In addition and as a hope for the future, as a fall-back position for the benefit of the District, the ACC, and the Company, the District is continuing to proceed, under normal WIFA guidelines and USDA procedures, with financing applications to be ready for an acquisition of assets if the December 31 deadline for the required new well in full operation is not met, or performance under the requested ACC oversight is not appropriate.

If there are any questions or ways the District can assist the ACC in solving the outstanding water supply, water quality, reliability, and service issues in Tonto Village, please give us a call.

Cordially,

For the Board of Directors of Tonto Village Domestic Water Improvement District
By Harry D. Jones, District Manager

Harry D Jones

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a Quality Water co.

P.O. Box 264, Williams, AZ 86046

To: Harry Jones

RE: Report on Tonto Village system inspection

Date: July 11, 2008

On 6/11/08 a Quality Water co. was invited to do a walk-through inspection of the potable water system at the Tonto Village community near Payson AZ. Following are our comments.

Well #1: (55-627909) static water level = 164ft. The well was started and pumped into the tank @ 11gpm for 10 minutes with 3ft of draw down. Non – conforming holes in the top of the well head were noticed as were unallowed cracks in the small sized concrete pad. The well appears to be extremely close to septic systems of neighboring properties.

The well has a pellet chlorinator on the well head that drops pellets directly into the well. This type of chlorination system can frequently cause damage to the well casing and often results in very high chlorine residuals in the water being pumped into the holding tank. The chlorine residual at the well head was over 2.2mgl., with industry practice attempting to be between 0.2 and 0.7mgl. Reliability and output consistency of these type chlorinators is generally low, especially as mechanical parts of the equipment wear. We suggest replacement with liquid injection systems that can be adjusted according to changes in flow rates from the well. Wells in the rim country are relatively shallow and vary in flow during different times of the year.

The pressure tank at well#1 has noticeable rust damage and appears to not had any maintenance work done on it recently. Small, pin-hole leaks were observed, possibly causing excessive wear on the pressure pumps that may be running excessively to recharge the tank. Possible tank replacement may be recommended after a complete inspection. Upgraded controls and valving may be required to properly coordinate this pressure zone with the rest of the system served by the other wells and pressure tanks.

The gate valve on the storage tank was not operational at the time and should be replaced.

The storage tank is also in need of maintenance. There were no required seals on the top hatch and the level float mechanism was inoperable, but started to work when the float was pulled up to the surface. This float may have been damaged from the ice forming in the tank during the recent cold winter.

The electrcial equipment appears to be in need of work. Control wiring laying on top of the ground and missing panel covers, etc.

Well #2: (55-627911) static water level = 183ft. The well was started and pumped into the tank @ 21gpm for 10 minutes with no draw down.

The well also has a pellet chlorinator on the well head,possibly resulting in the same problems as well #1.

The pressure and storage tanks appear to be in reasonable shape but are still in need of some maintenance work. Stains on the bottom of the storage tank appear to indicate chlorine pellets may have been dropped directly into the tank, a practice that can cause severe deterioration of metal surfaces.

There are duplexing pressure pumps that were both running and not alternating as designed. These pumps were sitting on the dirt floor of the building and not properly secured, so vibration is an issue. Both pressure pumps were leaking at the time and effects of associated leaks were very noticeable within all wiring contactors, copper check valves, etc. Electrical problems and poor reliability of electrical control systems at this location is likely due to poor maintenance. This pump house also will require upgraded electrical work.

The chlorine residule at the storage tank at the storage tank was 0.95mgl.

Well #3: (55-627912) static water level = 191ft. The well was started and pumped into the tank @ 24gpm for 10 minutes with no draw down.

This well also has a pellet chlorine feed on the well head resulting in the same problems as described for Well #1. Chlorine residual at the well head was over 2.2mgl.

All tanks and pumping equipment appear to be in reasonable shape and also look to be much newer than at the other 2 well sites. Electrical and control equipment appear to be in better shape than the other two well sites, but will require some upgrades and safety work to be performed.

Other system components: We excavated a section of the distribution lines. This section appeared to be thin wall poly pipe with a repair strap on it. This type of pipe often results in excessive leaks since it is easily damaged and somewhat difficult to repair because of its brittle walls that can be penetrated easily by rocks, shovels, etc. If

this pipe is located in areas near septic leach lines and pressure loss in the distribution system occurs, cross contamination is possible.

Pressure tests were performed at lots 212 and 62 the results were: lot 212= 34psi @ the outside hose-bib. Lot 62 = 33psi @ the outside hose-bib.

Chlorine residual tests were taken in random sections of the system. Results were: lot 19 = 1.14mgl., DD Bar 0.47mgl., Kane residents = 1.07mgl., lot 211= 1.21mgl. Tests were taken on 5/17/08 by our local operator at private homes near each end of the distribution system at the request of several citizens. These results were: Firehouse Kitchen over 2.2mgl., DD Bar 0.82mgl. On 5/18/08 more tests were taken and these results were: Kamp residence, 0.82mgl, Kane residents, 1.08mgl., and lot 86, 2.12mgl. These results indicate excessive chlorine residuals, possibly caused by the chlorination equipment on each well.

Water samples were taken from each well to the laboratory in Flagstaff on 6/11/08. Samples performed were for: Coliform bacteria, total nitrogen, and arsenic. Test results were not available yet, but will be reported separately when received.

Resulting Conclusions:

At the time of year the wells were tested, and after a wet winter and spring, the wells appear to be a reliable water source. However, a 3 to 5 hour draw down test, possibly done at other times of the year, should be performed for a more dependable inspection conclusion.

All chlorine equipment should be replaced, and well casings and tanks should be inspected for integrity. Chlorine pellets frequently cause excessive damage to well casings and chlorine pellets sitting on the bottoms of tanks allow for metal defects that can significantly reduce casing and tank life.

All pressure and storage tanks should be cleaned and inspected. The last paint job on the tanks has poor adherence, indicating tanks were probably not properly prepared or sand blasted before application. To meet large, seasonal and weekend peak demand spikes that occur in communities all over northern Arizona, additional storage should be considered.

A complete elecrical inspection should be performed on the whole system: i.e. pressure pump motors, well pumps and motors, all service boxes, etc. Substantial upgrades may be required to enhance reliability and to meet OSHA safety standards and ADEQ requirements.

Pump houses should have back-up equipment immediately available and all working equipment should be properly attached.

The disturbution system is suspect. Without as- built drawings with an engineers stamp and detailed schedules of all lines, materials, locations, depths, and quality of prior repairs, it is difficult to determine the condition of this part of the system.

ADEQ required Systems Emergency Operation Plan, Consumer Confidence Report, Site Sampling Plan,operator licenses and other compliance paperwork should be on file on location for ADEQ inspections.

The system appears to be providing adequate service for the homeowners. However, with greatly improved maintenance and important equipment upgrades (electrical, chlorination, tanks, and distribution lines), the system would be far more reliable for the residents.

Pat Carpenter

a Quality Water co.

Az. Operater I.D.# 07600

PATTON ELECTRIC L.L.C.

1805 NORTH SECOND ST., Flagstaff, AZ 86004

To: Harry Jones

RE: Report on Tonto Village system inspection

Date: July 22, 2008

On 6/11/08 PATTON ELECTRIC L.L.C. was invited to do a walk-through inspection of the potable water system at the Tonto Village community near Payson AZ. Following are our comments.

Well #1: (55-627909) The current pump control system does not have any motor protection for phase loss, dry run, over voltage, or under voltage.

There are several covers missing on the electrical enclosures that could cause harm to personel if they were to come in contact with the live parts located in the enclosures..

There is no equipment or safety ground to the sub panel for fault current protection. In the event, if equipment was to fail, there would be no path for current to ground fault except through piping and other mechanical means. This can be deadly to personel if they were to come in contact with bare metal piping at the time of a fault.

The service entrance section has a 125 amp breaker feeding the sub-panel with wire good for only 60 amps full load current.

The tank floats are faulting and not properly turning the well on or off in normal sequence.

The circiut for the heat trace is not to code and could result in a pipe freeze situation if it were to fail.

Well #2: (55-627911) The service feeding this site has multiple breakers that are sized wrong as per NEC. specifications.

All the electrical components in the pump building all have severe damage as the result of poor ventilation and dirt floors.

Well #3: (55-627912) The sevice has severe damage to it as a result of an electrical melt down on the bus system by a failed main breaker. As per code, the service is required to be upgraded to a commercial style SES and to be relocated to the builing it is serving.

The storage tank sensor conduits are run on top of the ground rather than in the ground.

The air compressor needs to be re-wired to bring it up to code.

Resulting Conclusions:

A complete elecrical inspection should be performed on the whole system: i.e. pressure pump motors, well pumps and motors, all service boxes, etc. Substantial upgrades may be required to enhance reliability and to meet OSHA safety standards and ADEQ requirments.

The breif inspection that was performed, there were multiple code violations and safety issues that need addressed immediately for the safety of personel and uninterupted sevice to customers.

Pump savers are highly recommended on any well system as to the nature of there location and of their use. Any electrical unbalance or phase loss can severly damage these motors very quickly.

There are numerous code issues that need addressed at each well site that pertain to quaility craftmanship. There is ROMEX run on the ground and throughout the pump houses which should be replaced with electrical metallic conduit.

A rough estimate to bring the system up to a fair operating level would be some where in the ten to fifeteen thousand dollar range, depending on how far the owner wants to go. This price range would bring the system up to the bare minimun standards.

John Patton

PATTON ELECTRIC L.L.C.

Az. Contractors Lic. #K-11 173904

HIGHLAND WATER
RESOURCES CONSULTING Inc.

Water Resources Solutions

July 24th, 2008

Harry Jones, District Manager
Tonto Village Domestic Water Improvement District
HC7 Box 180,
Payson, AZ 85541

RE: Tonto Village Water System Inspection of June 11th, 2008

On June 11th, 2008 Highland Water Resources Consulting Inc. "HWRC" participated in a walk through inspection of the Tonto Village Water system with "a Quality Water Co." and representatives of the Tonto Village Domestic Water Improvement District "TVDWID", Aero Drilling and Pumps Inc., and the "Tonto Village Water Co.". HWRC's focus was on assessing the condition and performance (if possible) of the system's three wells currently being utilized as sources. The following is a brief summary of HWRC's findings per well with a summary of overall observations and recommendations.

Well #1, 55-627909

This well is believed to be the oldest source for the water system and is constructed with 8 inch steel casing. The well site was found to be quite small. The site was crowded with trees, power poles/lines, booster tank and shed, and a water tank. The crowded site conditions limit access for maintenance and repair. The well was found to be pumping approximately 11gpm upon arrival. The well's booster system, shed, and tank were found to be in generally poor appearance. However, the equipment appeared to be operational, though a sensor in the water tank may have been malfunctioning. Following a brief inspection of the ground surface at the well site it was concluded that the geology exposed at the surface appeared to be that of the Naco Fm. limestone.

Aero Drilling and Pump crews measured the water level at 164ft with the well off, which likely represents an only slightly higher than pumping level due the well not having rested for long. However, when pumped, the well was observed to have 3ft. of drawdown. The well is a shallow source at just over 220ft. deep which is the primary reason for its reported seasonal reliability. The well is within 100ft. of at least two septic systems of adjacent residences. Any attempt to deepen or modify the well may not be feasible due to septic setback limitations, required ADWR variance permit, and limited site size.

Well #2, 55-627911

This well was apparently installed to augment the original well in the 1970's. It, however, is still a shallow aquifer well at only 260ft. with a 5 inch pvc casing installed to depth. This well may be deep enough to have penetrated an uppermost section of the Martin Fm. dolomite. The ground surface appeared to be dominantly of silt consistent with a shale layer in the Naco Fm., likely a lower Naco shale bed.

The well site was found to be cluttered with tanks (active and inactive) which, at first, made it difficult to define the system. The well was not pumping upon arrival but when activated did yield about 21gpm with little to no drawdown from the static depth to water of 183ft. after 10 minutes of pumping, as measured by Aero Drilling and Pump's crew. It is not known how long the well had been off prior to measuring the water level. Therefore the actual amount of drawdown is unclear. Still, well 2 appears to be a much better source than well 1 in both yield and reliability, due to being slightly deeper.

The well booster tank was found to be leaking as was some of the piping in the booster shed. The booster shed itself was cluttered but in better condition than the shed at well 1. However, the storage of chlorine pellets in this building had obviously corroded wires and piping. This has resulted in a hazardous condition, not only from chlorine vapors but also in the resulting decomposition of wire insulation. It is advisable to have the booster house vented and any bad wires / circuitry replaced. The well site, though cluttered, appeared to be of adequate size to permit modification and maintenance of the well, assuming some of the tanks are removed. A large water tank was noted to the north of the booster tank and at a glance appears to be in satisfactory condition yet in need of paint.

Well #3, 55-516995

HWRC was not able to participate directly in the walk through inspection at well 3. However, upon review of data collected by a Quality Water Company, a drive by inspection, and a brief review of ADWR records the following comments are made. Well 3 is the deepest of the sources at 340ft. and is constructed with a 5-inch inner pvc casing. The surface geology is consistent with a thin alluvial fill likely masking the lower Naco Fm. or top of the Redwall Fm just under the surface. In review of well records the well likely penetrates at least partially into the Martin Fm. dolomite, as does well 2.

Well 3 appears to be a more recently activated source, though records reviewed indicate the well was drilled in 1987. The well site appears large enough for access of pump and drill rigs and was relatively free of clutter and debris. However, property lines and corners were not immediately discernable.

The apparent static water level was measured at 191ft. with little to no drawdown measured after 10 minutes of pumping. Again, there is some doubt as to the accuracy of drawdown measurements due to not knowing how long the well had been off prior to

collection of water level measurements. Still, the performance of the well appears much better than that of well 1 and interestingly identical to well 2.

Summary of Overall Observations and Recommendations

Maintenance and Testing

Regular maintenance, inspection, pump testing, and cleaning of the historically used wells appears to not have been conducted. This is particularly obvious at well 1 and 2 where vegetation, old clutter, property line set-backs, and/or power line placement block or hamper drill and pump rig access to the wells. Due to the age of the wells, type of aquifer, and pvc construction it is recommended that wells' 2 and 3 performance be re-evaluated via at least 3 day continuous pumping tests (see long-term performance and reliability discussion below). Following pumping tests, the interiors should be inspected particularly due to the use of pellet chlorinators. Perforations and structural integrity of the PVC should be assessed. Following such inspections it may be advisable to have the wells cleaned and re-developed and/or reconstructed if needed. Though an acceptable practice, HWRC does not recommend the use of PVC casing for public supply wells. Following cleaning and re-development and/or reconstruction, pump testing of the wells could again be conducted to assess performance improvements and ideal operational schedules.

Septic Risks

It is clear from the observed density of homes, topography, and the geology (of both the aquifer and that exposed at the surface) that each of the wells can be considered "at risk" from septic system use in the area. Because of the wells ages it is highly recommended that the condition of the wells sanitary surface seals be evaluated due to the risks presented by septic systems. Though ADWR standards call for only 20ft. surface seals, HWRC recommends the use of 60ft. minimum surface seals (or combined total length of seals) be placed in limestone environments with the combined use of bentonite and cement grout. The presence of and/or competence of the sanitary surface seals at each of the wells is of question because of the presence of Nitrate in the groundwater (see a Quality Water Co. report).

Long-term Well Performance / Reliability

Well 1 would appear to not be a reliable source based on past performance. Wells 2 and 3 appear to be relatively good producers with little drawdown at 21gpm and 24gpm respectively. In fact, there appears to be some potential to produce more from these wells. However, each well will exhibit variable yield and reliability due to the relatively shallow and drought sensitive limestone aquifer source. Implicit in their similar performance, a high degree of hydrologic connection between wells 2 and 3 may exist as there is less than 1,000ft. of separation between them. Hydrologic connection of the wells can result in a condition called "well interference" and it could manifest itself in

significantly less net production capability than independent or exclusive well yields. Well interference is of particularly concern during extended dry periods and long pumping times. For example, wells 2 and 3 can pump at 21gpm and 24 gpm respectively with little drawdown over a short period. That is good news; but what happens to drawdown and pumping rates if the wells both need to run continuously over a three day holiday weekend to meet peak demand? Such a condition would likely occur in the summer months with the worst case example following an abnormally dry winter and lackluster monsoon when longer well run times are required to meet a peak weekend late summer demand. In years past, well interference, bare minimum storage, and drought conditions have likely combined to result in water shortages in the Rim Country and Tonto Village's water system has been no exception. Typically, the degree of well interference may only be assessed by pump testing at a minimum of 3 up to 7 days of continuous pumping. This pumping along with monitoring of non-pumped wells would aid in determining both the degree of interference as well as identifying key aquifer characteristics which are currently unknown.

Regular monitoring of water levels, at least monthly, is also needed to reasonably assess aquifer conditions to a resolution capable of observing seasonal aquifer trends and to assess the bulk effects of well interference. Such data is also needed to assess the aquifer's response, not only to pumping, but to recharge and drought.

Well Supply vs. Demand

Because of the above data issues and short pumping durations observed at the wells during inspection it is unclear what the exact production capacity and long-term yields of the wells are. Assuming well interference is minimal, it may be reasonable to assume that production may be acceptable at 40gpm if shared from all three sources. If this is indeed the case a total of 57,600 gallons per day (gpd) represents the existing well field's capacity. Still, HWRC does not recommend that wells be committed to serve at capacity due to seasonal and drought sensitive variability in well production rates and aquifer limits. HWRC recommends that wells be committed to serve at up to 80% of their long-term capacity as a safety margin. To evaluate the existing well field's ability to serve existing and buildout commitments the system's demand may be estimated by assuming a reasonable quality of life water use value of 120 gallons per person per day (summer demand). Assuming there are about 2.4 people per household a demand average of 288 gallons per service per day is estimated. HWRC understands that about 190 units are currently being served with a commitment to serve up to about 250 units at buildout. This represents a commitment to provide at least 54,720gpd currently with a projected 72,000gpd at some point in the future. Additional production capacity is needed currently, particularly if wells are to recover from peak demand periods and if interference is an issue. To meet both current and buildout demands, it is recommended that well field production be increased to about 65gpm, likely via a new and deeper well.

New Deep Well Source

In consideration of the existing well's issues and demands, it may be more beneficial to drill a new well of proper construction, optimum location, and depth to isolate production to deeper portions of the aquifer. This would mitigate and/or minimize septic, well interference, and seasonal variability concerns. A deeper source, ideally located at least 1,500ft away from existing wells 2 and/or 3, will also be more reliable and provide an additional source to use in concert with and/or in augmentation of acceptable shallower sources, as needed. Ultimately a new deep source would provide the needed capacity to both meet current and future demands. Therefore, a new deep well is highly recommended. For clarification a "deep source" in the Tonto Village area would produce its groundwater from sandstone, dolomite, and/or fractured granite exclusively from below the Redwall limestone, likely at depths exceeding 400ft.. Data from the well logs and observed exposures of the Naco Fm. and possibly upper Redwall Fm. within and surrounding the subdivision indicate such.

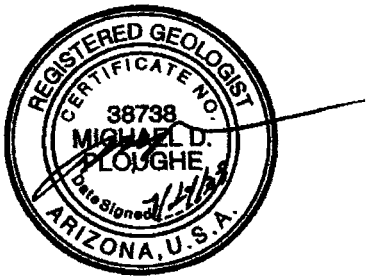
System Storage

Though not a primary focus of HWRC's inspection, existing storage facilities (~54,000 gallons total) were noticeably in need of maintenance and seem far too small for a community the size and type of Tonto Village. Water demands are known to spike on weekends in Rim Country communities due increases in population caused by an influx of Phoenix metro area residents escaping the Valley's heat. ADEQ minimum storage standards are not designed to address the resulting water demand spikes. In HWRC's experience, a water demand planning value that represents both an adequate quality of life for customers while also considering Rim Country's peaking demands is 120 gallons per capita (person) per day over an average peak summer month (a "peak day" would be a little more). HWRC recommends that a water system in northern Arizona's Rim Country maintain a minimum storage capacity based on up to three days of average peak summer usage in addition to fire suppression storage, as determined by the local authority. [*Notably, the Tonto Village Water System does not provide fire suppression storage or service. As a side issue this would be most advisable for future system improvements.*] Assuming no fire suppression reserves, the minimum recommended storage capacity per unit based on 120gpcd demand and a density of 2.4 people per household (service) for a three day period is 864 (288 gallons per residence x 3 days) gallons per residence. With the water system currently committed to serve about 190 connections and up to as many as 250 residences (connections) at buildout, HWRC recommends that water storage should be at a current minimum of ~164,000 to be expanded up to ~216,000 gallons by buildout. The current system capacity is essentially 54,000 gallons and therefore relies on continuous pumping of the wells to meet peak demands. Expanding water storage as soon as possible, if only in phases, would go along way towards ensuring that water service is not interrupted even if existing water supply sources are nearly exhausted over a 3 day average peak weekend. *Note that the proceeding example does not include commercial or industrial uses, fire suppression, or continuous and consecutive "high peak" day demands.*

Should you have any questions please feel free to contact HWRC at 928-468-0252 or 928-970-9055 cell.

Regards,

Michael Ploughe P.G.
HWRC Inc.



Expires 3/31/09

HIGHLAND WATER
RESOURCES CONSULTING Inc.

Water Resources Solutions

July 31st, 2008

Harry Jones, District Manager
Tonto Village Domestic Water Improvement District
HC7 Box 180,
Payson, AZ 85541

RE: Deep Well Cost Estimate

Harry,

In addressing your question of "what would a new deep well in the Tonto Village area cost", I offer the following as supplemental to my July 24th, 2008 letter report:

In my experience, a deep well constructed in the Tonto Village area may be expected to cost between $150,000 to $250,000 depending on final capacity and depth. The previous estimate assumes construction costs only and that the well is 1) drilled to a depth of between 700ft. to 1,000ft., and 2) an 8 inch screen completion with 10 inch blank casing installed to at least 400ft.. Additional cost for the pumping system, testing, sampling, power installation, and such can be expected. Without knowing pumping capacity much of this is difficult to estimate. I would propose that the costs would come in at about another $25,000 for a 50gpm well. This would make the total cost estimate range $175,000 to $275,000.

A lower cost ($75,000 to $125,000) well construction option exists in a 6 inch screen completion with 8 inch blank casing. Only a minor savings in pumping equipment costs would be expected. Due to limited size, volume, and potential for sediment (particularly at rates above 25gpm), smaller public wells in this setting are problematic and in the end become more costly. This is due to lower efficiency, higher maintenance, and a shorter life cycle. I do not recommend any smaller well completions than 8" for deep public supply wells in the region.

Should you have any questions please feel free to contact me at 928-468-0252 or 928-970-9055 cell.

Regards,

Michael Ploughe P.G.
HWRC Inc.

TETRA TECH, INC.

August 4, 2008

Harry D. Jones, District Manager
Tonto Village Domestic Water Improvement District
HC7 Box 363
Payson, AZ 85541

Subject: **Tonto Village Domestic Water Improvement District**
Engineering Cost Estimates
Project No. 30267.08001

Dear Mr. Jones:

In your Memorandum to us, dated July 25, 2008, you requested cost estimates for components of both the water supply and water distribution system for the Tonto Village Domestic Water Improvement District. The cost estimates for the requested components are attached for your review. These estimates are based on current replacement costs and include all labor, material, and equipment necessary for installation. We have also included 15% to cover engineering, permits, and other contingencies.

As shown on the attached estimates, these components can be separated into three (3) separate categories:

A) Storage Tanks – The potable above-ground water storage tanks were evaluated as 24 foot high steel tanks set on a gravel bed with a retainer ring. Costs of three different sized tanks were estimated as follows:

100,000 gallon tank - $150,000
50,000 gallon tank - $105,000
25,000 gallon tank - $ 70,000

B) Booster Station Equipment – For 190 residential connections, we estimate the need for a 250 gallon a minute booster system to supply instantaneous demands. According to Hennessey Mechanical Sales, a skid mounted booster station that can provide 250 gallons per minute at 50 psi will cost approximately $52,000. Three (3) separate sized hydropneumatic tanks were evaluated and their costs were estimated as follows:

2,000 gallon hydropneumatic tank - $15,000
1,500 gallon hydropneumatic tank - $13,000
1,000 gallon hydropneumatic tank - $12,000

431 South Beeline Highway, Payson, AZ 85541
Tel 928.474.4636 Fax 928.474.4867
www.tetratech.com

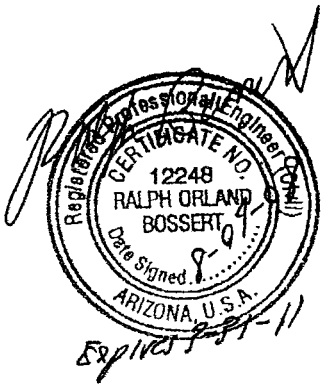
An Air Rite Air Charger mounted on the hydropneumatic tank to replenish air volumes will cost approximately $300. A Hypo Chloride Feed System, complete with a monitor, will cost approximately $5,150.

C) Water Distribution System – Based upon review of Inspection Reports from A Quality Water Company, Legends Laboratory, Patton Electric, and Highland Water Resources, Tetra Tech, Inc. has estimated full replacement costs, since it is unknown how much of the infrastructure is in need of replacement at this time. We have also estimated replacement costs for 75% and 50% of the water system infrastructure. The estimate of cost to completely replace the water distribution system, including water services and meters, is approximately $632,130 as shown on the attached estimate. The estimate of cost to replace the entire potable water system is $1,065,480. The cost to replace 75% of the system is approximately $799,110. The cost to replace 50% of the system is approximately $532,740. These cost estimates are based on quantities of materials provided by you for the various size water mains. Two types of water services are included in the estimate. Dual Water Services can be placed at a common property corner between two lots and includes two meters connected to one service tap from the main. A Single Water Service includes a single meter and connection to the main.

These estimates are based on current costs. Because full details regarding needs and timing of installation are not known, actual costs could vary as much as 20% above or below our estimates.

Thank you for allowing us to assist you on this project. Please contact us with any questions or comments.

Very truly yours,



Ralph O. Bossert, PE, RLS
Sr. Project Manager

ROB:lmw
P:\30267\134-30267-08001\Wordpro\Ltr Harry Jones EE of Cost Ltr.doc

Attachments

TETRA TECH, INC.

TONTO VILLAGE WATER SYSTEM
WATER SUPPLY COMPONENTS
ENGINEER'S ESTIMATE OF COST
Project No. 30267.08001
August 4, 2008

No.	Description	Quantity	Unit	Unit Cost	Total Cost
A) Storage Tanks					
1	100,000 Gallons	1	EA.	$ -	$ 150,000.00
2	50,000 Gallons	1	EA.	$ -	$ 105,000.00
3	25,000 Gallons	1	EA.	$ -	$ 70,000.00
	Subtotal Section "A" - Storage Tanks ...				**$ 325,000.00**
B) Booster Station Equipment					
1	250GPM/50PSI / 15 HP Booster Station	1	EA.	$ -	$ 52,000.00
2	2000 Gallon Hydro Tank	1	EA.	$ -	$ 15,000.00
3	1500 Gallon Hydro Tank	1	EA.	$ -	$ 13,000.00
4	1000 Gallon Hydro Tank	1	L.S.	$ -	$ 12,000.00
5	Air Rite Air Charger	3	EA.	$ -	$ 900.00
6	Hypo Chlorite Feed System	3	EA.	$ -	$ 3,450.00
7	Monitor	3	EA.	$ -	$ 12,000.00
	Subtotal Section "B" - Booster Station Equipment ...				**$ 108,350.00**

Registered Professional Engineer (Civil)
CERTIFICATE NO. 12248
RALPH ORLAND BOSSERT
Date Signed 8-04
ARIZONA, U.S.A.
Expires 3-31-11

TETRA TECH, INC.

TONTO VILLAGE WATER SYSTEM
WATER DISTRIBUTION COMPONENTS
ENGINEER'S ESTIMATE OF COST
Project No. 30267.08001
August 4, 2008

No.	Description	Quantity	Unit	Unit Cost	Total Cost
C) Water Distribution System					
1	6" PVC Water Main	5,395	L.F.	$ 45.00	$ 242,775.00
2	4" PVC Water Main	1,710	L.F.	$ 40.00	$ 68,400.00
3	2" PVC Water Main	5,550	L.F.	$ 30.00	$ 166,500.00
4	6" Valve, Box and Cover	6	EA.	$ 1,090.00	$ 6,540.00
5	4" Valve, Box and Cover	3	EA.	$ 805.00	$ 2,415.00
6	2" Valve, Box and Cover	12	EA.	$ 575.00	$ 6,900.00
7	Dual Water Services	65	EA.	$ 980.00	$ 63,700.00
8	Single Water Services	60	EA.	$ 805.00	$ 48,300.00
9	3/4" Meters	190	EA.	$ 140.00	$ 26,600.00
	Subtotal Section "C" - Water Distribution System ...				**$ 632,130.00**

100% Replacement Cost Estimate (Sections A, B, & C)	$	1,065,480.00
75% Replacement Cost Estimate	$	799,110.00
50% Replacement Cost Estimate	$	532,740.00

Tonto Village
Domestic Water Improvement District
HC7, Box 363
Payson, AZ 85541
Phone: (928) 595-1111
FAX: (928) 474-2876

August 5, 2008

Tonto Village Water Co
C/o Mr. John Gliege, Legal Counsel
Gliege Law Offices, PLLC
P. O. Box 1388
Flagstaff, AZ 86002

Dear Mr. Gliege:

As you are aware, the TVDWID inspection team has issued five separate reports as to the condition and suitability for service of the water system infrastructure and well sites owned by the Tonto Village Water Co. and certain undetermined members of the Standage family. The reports that have been shared with you are:

- A Quality Water Co. dated July 11, 2008
- Patton Electric dated July 22, 2008
- Legends Laboratory dated July 22, 2008
- Highland Water Resources dated 7-24-2008 and July 31, 2008
- Tetra Tech dated August 4, 2008

From the conclusions and recommendations sections of these reports, it appears obvious that the water system infrastructure is not in good shape mechanically, the amount of well water available is inadequate, and the business on an on-going basis is of little value to the Standages or any investor that intends to operate it under the adequacy of service requirements of the Arizona Corporation Commission and the quality standards of the Arizona Department of Environmental Quality.

The bottom line is that, as of today, the system infrastructure and operational and maintenance procedures are unable to support adequate service to the rate payers. The

reasons for the current condition of the system and the inadequacy of service can be debated, but the facts as to its current status should be reasonably clear to all concerned now that the preliminary system investigation performed by the District is completed. The general conclusion of the investigation carried out by the District is that it will take hundreds of thousand of dollars (maybe up to a million dollars) to bring the system up to reasonable operating standards for the future.

From last week's conclusions and orders from the ACC Commissioners, it is also obvious that the current owners or any future owners are immediately faced with substantial financial investments to bring the system up to reasonable municipal standards in terms of water quality, water availability, and reliability.

Therefore, if your clients want to move forward on their own (a) with significant new cash investments and debt obligations, (b) with the uncertainty and costs of rate cases and loan applications, (c) with tight deadlines needed to avoid possible penalties briefly discussed by the Commissioners, and (d) with additional personal time required to promptly manage the extensive water system redevelopment project, the owners of TVWC now know what they face and what they must do.

On the other hand, if they wish to avoid those costs, obligations, uncertainties, deadlines, and time commitments, the District is willing to attempt to take on that burden by acquiring the all the currently used operating assets, wells, tanks, four land sites, billing systems, etc., all to be specifically described later.

As you and the Standage family should be aware, the residents and Board members are absolutely determined to obtain adequate, safe, and reliable water service to their properties so as to protect their property values and to enhance their quality of life. To do so, they are willing, over the next few years, through the DWID, to take on the management burden and future financial obligations necessary to correct the existing deficiencies. The TVDWID Board of Directors has concluded that the water system is unlikely to have any financial value (something that can earn a return on investment or that can be held as a future valuable asset to be included in an estate) to anyone at this point in time. The Board of Directors does feel that the residents, through operation of the District, might be able to utilize the assets to better serve their properties, including the several lots and homes owned by the Standage family members.

Therefore, the board has authorized me to discuss with you an offer to be made to the operating asset owners and the real property owners for a total amount of $50,000 to reward the family for its years of efforts and to relieve the family of its management burdens and the future financial obligations necessary to meet regulatory requirements and orders from the ACC and ADEQ.

The Board understands it has been historically difficult for the Standage family to deal with limited financial resources, with inadequate rate structures, with required management efforts where time is not available, and with the emotional fact that the company did not become a valuable asset to be shared by the family. Years of being

unable to operate the Company at a level the Standages may have hoped for is something that probably needs to come to an end for both the family and the residents.

Please let me know how you would like to proceed. The Board would like to move forward with a transaction as soon as possible since time is of the essence in terms of meeting deadlines your clients face and in terms of the District being able to correct the water supply and reliability issues faced by the residents, such as what occurred with the severe loss of pressure in Unit III two weekends ago. The District would like to hear back from you within 10 days, so the District has time to make funding arrangements satisfactory to the citizens and to the Standages.

John, your assistance and the cooperation of the family during the inspection process has been appreciated.

Cordially,

By Harry D. Jones, District Manager
In behalf of the Board of Directors
Tonto Village Domestic Water Improvement District

HARRY JONES

From: "John Gliege" <jgliege@earthlink.net>
To: "Harry Jones" <harryjoneshdj@msn.com>
Sent: Tuesday, August 19, 2008 9:27 AM
Subject: Tonto Village Water Company

Dear Harry, in response to your reqest of yesterday, my clients believe that the offer made by the Tonto Village Domestic Water Improvement District is disingenuous, not sincere and insulting. Therefore, it is rejected by my clients.

My clients intend on complying with the Orders of the Arizona Corporation commission in a timely manner. They are also exploring the options of selling the company to other interested parties. As you know there are several other water companies in the area and it might be cost effective for any of them to acquire this system.

John

Tonto Village
Domestic Water Improvement District
HC7, Box 363
Payson, AZ 85541
Phone: (928) 595-1111
FAX: (928) 474-2876

August 28, 2008

Tonto Village Water Co.
C/o John Gliege, Legal Counsel
Gliege Law Offices, PLLC
P.O. Box 1388
Flagstaff, AZ 86002

By e-mail to jgliege@gliege.com

Dear John:

The District Board has asked that I contact you again concerning negotiations for the District to acquire the operating assets of Tonto Village Water Co.

The key questions from the Board are (1) does the family really want to sell the assets to the District?, (2) what is the value the Standage family would place on the assets?, and (3) on what basis is any perceived value by the family being determine?

From our prior letter to you, it is easy to see that the major concern of the Board is the additional investment for required improvements that must be made by the District, any other buyer, or the Standages if they decide to keep the system. The analysis by our investigative team has been presented to you for your consideration; yet, it is difficult for the Board to place large values on the assets in light of the additional investments that must be made to cover the deferred maintenance and to install the new ACC required well that is needed to have an adequate service system going forward.

In terms of my prior letter to you, there was no intent on our part at being disingenuous, insincere, and insulting, but only to be factual as to what the real financial and operational situation will be in terms of required future ownership of the water system, regardless of who owns it. The District has spent many thousands of dollars to determine for its own benefit and the family's benefit what the real condition of the system is, what

improvements are going to be required, and what the status of the Company is in the eyes of the ACC and ADEQ. John, if only limited investment were required in the near-term, the assets would obviously have greater value today; however, that is not the case at this time.

John, as you mentioned to me, if your clients feel significant value is in the lands where the wells are located (presumably on the basis of value for residential use), please explain how those properties, if turned into residential lots, would be replaced so there are other available wells, tanks, electrical power facilities, fencing, etc. required to have an operating water system.

The Board is willing to (1) take on huge financial obligations for required system upgrades, and (2) consider any proposals the Standages may authorize you to present to the District; however, we would like to have any values suggested to be explained so the Board and the property owners can consider them in light of something acceptable to both the family and the community members.

John, it seems to me that part of normal negotiating in good faith (which the family has indicated it is willing to do) is to present to the other side with some degree of logic for desired prices, terms, and conditions, so some common ground might be reached. I believe the Board has done that in my recent letter to you, to which was attached numerous investigative reports as to system status. I hope that you and the family can do a "sell job" on the board and provide reasonable justification for whatever value you think is there. If the Board agrees with your value and the supporting logic, a deal can probably be easily struck.

The Board and the residents do want to take control of their water future, and they are willing to step forward with large obligations they will incur to bring the system up to reasonable municipal operating standards as established by ADEQ and the ACC. If you cannot provide the Board with reasonable answers to the three questions in paragraph #2 by September 8, 2008, the Board has indicated they will consider the lack of those reasonable answers as an indication that you or your clients do not intend to negotiate with the District. If there is no intent to negotiate, the Board would fully expect that other buyers or the Standages to immediately proceed with the ACC mandated well and the other specified improvements necessary to provide the rate-payers and property owners adequate water resources and the legally required water quality and service reliability.

Cordially,

Harry D. Jones
District Manager

HARRY JONES

From: "John Gliege" <jgliege@earthlink.net>
To: "Harry Jones" <harryjoneshdj@msn.com>
Sent: Tuesday, September 09, 2008 10:55 AM
Subject: Tonto Village

Dear Harry,

I had the opportunity to meet and discuss the issues pertaining to the Tonto Village Water Company with my clients. Despite the unfounded and personal attacks which were made upon them before the Arizona Corporation Commission the other day, my clients are still willing to attempt to negotiate a sale of the Tonto Village Water Company to your clients, however, not at this time.

My clients were ordered to install a well, which they are going to do, and likewise they are going to proceed with the rate increase case which is presently pending before the ACC and once the new well is completed and they have a year of operation of it they will be applying for another rate increase to recover the costs of the well when it is being used and usable, and all costs incurred in the development of the well, along with a reasonable rate of return on their investment.

At that time, once the second rate increase hearing occurs and rates are established which include the new well, my clients will be in a position to have the value of the company determined and then they can respond to the questions you set forth in your previous letter.

While they still will be amenable to the receipt of offers to purchase the water system from the District or from any private water companies, and may act upon them if at the time the offers are placed my clients deem them to be reasonable, they will not set a value on the water system until they have completed the improvements noted above and concluded the rate increase processes noted above.

Yesterday we became aware of some new complaints filed by members of your board of directors with the Arizona Corporation Commission and others in the community. Once again, the willingness of my clients to negotiate in good faitth with your clients has been diminished. My clients fail to understand why your clients, if they are having a problem cannot first attempt resolution of the same through discussions with them. Instead your clients have chosen to engage in formal corporation commission proceedings which will cause my clients to incurr attorneys fees and other costs which the commission can deem recoverable in the rate setting process. Surely it is not the intent of your clients to have their rates increased to cover any of these costs as well.

My clients are proceeding as ordered by the Corporation Commission. At the same time we are exploring other alternatives for the disposition of the water company.

Harry, the door to negotiation of a reasonable resolution to this situation is still open if the District is in fact interested. If the District is no longer interested in pursuing this purchase please advise.

John G. Gliege

HARRY JONES

From: "John Gliege" <jgliege@earthlink.net>
To: "Harry Jones" <harryjoneshdj@msn.com>
Cc: "John Gliege" <jgliege@earthlink.net>
Sent: Monday, September 22, 2008 1:08 PM
Subject: Sale of Tonto Village Water Company

Harry

I just had the opportunity meet with my clients regarding the sale of the Tonto Village Water Company. In light of your recent letter it became apparent to them that your clients were looking for my clients to indicate a price they would be willing to accept for the water system in Tonto Village.

A decision is going to have to be made whether or not your clients want to purchase the stock of the Water Company, a transaction that can be swiftly accomplished, or just the assets of the company, a transaction which will take longer to accomplish and which will cost more, thus increasing the price of the water company.

What is for sale is the three existing, usable and used well sites and the facilities for the pumping and conveyance and storage of water, from the wells to the meters and all that is in between. Well site number four is not included. All of the system is being offered for sale "as is, where is" with no warranties, either express or implied concerning the quality or condition of the assets to be conveyed, the system or the water which is and can be delivered. This offer does not include the new well which will be drilled shortly. Hopefully this transaction can be concluded prior to the start of the construction. It is my client's intention to complete this new well in accordance with the Corporation Commission requirements in a timely manner.

This offer to sell the water system for the amount set forth herein is only good until my clients begin drilling the new well. If it is not accepted by the time a drill rig is "on site" under the control of my client's contracted well driller, then this offer shall be deemed to be withdrawn. This condition shall remain a constant whether or not there is any further negotiation concerning the price of the water system or what is included therein. It is presently planned to have the construction of the new well commence in October pursuant to the ADWR permit already issued to my clients.

Additionally, my clients expect that this transaction will close within thirty days from the date of acceptance by the District.

My clients have set a price on the water system and the real estate used in conjunction therewith of $600,000.00, plus any costs incurred by my clients in connection with the sale, such as the costs incurred in any corporation commission proceedings, if necessary to obtain approval of this sale, or any other additional legal, engineering or construction costs which they may have to incur.

Please be advised that my clients have also authorize me to begin gathering information requested by the attorney for another potential buyer for the water system. However it has always been my clients' hope that the District would acquire the system so that the community would have control over its water system.

Please review this with your clients and get back to me as quickly as possible.

John G. Gliege

HARRY JONES

From: "HARRY JONES" <harryjoneshdj@msn.com>
To: "John Gliege" <jgliege@earthlink.net>
Sent: Friday, October 03, 2008 8:16 AM
Subject: Re: Tonto Village

John: I would expect the District will ask me to reply to your 9-22-08 communication shortly after their executive session and regular public Board meeting to be held on Tuesday, Oct. 7. To facilitate the Boards discussion and understanding, and as previously asked, can you explain the logic behind the $600,000 evaluation? How does that compare to other known sales of water companies in similar physical shape, to going concern values, to asset values, to appraisals, etc.? Also, what is the reason for longer closing times for an asset purchase rather than a stock purchase?

Harry D. Jones
HDJ Management LLC
harryjoneshdj@msn.com
(928) 595-1111

> ----- Original Message -----
> **From:** John Gliege
> **To:** Harry Jones
> **Sent:** Thursday, October 02, 2008 12:58 PM
> **Subject:** Tonto Village
>
> Harry, my clients are getting anxious to follow the corporation commission orders and drill the new well. They have a contract with a driller and are ready to give the Notice to Proceed. What is the status of your client's interest in acquiring the water system? John

HARRY JONES

From: "John Gliege" <jgliege@earthlink.net>
To: "HARRY JONES" <harryjoneshdj@msn.com>
Sent: Friday, October 03, 2008 10:01 AM
Subject: Re: Tonto Village

Harry, It is too bad that you didn't send this email sooner. In light of the short time until your meeting, my client's believe that it is now better for them to wait until a reasonable response is received from the District before pursuing this matter further with the District. It is not the job of my clients to facilitatte the Boards' understanding, nor is it necessary to explain my clients' logic. You know, as well as I do the values per connection of water systems in this state which have recently been sold. Additionally, there is the land value for the various parcels of property included within the system. Note that the wells and the land do not belong to Tonto Village Water Company, and so in the process of concluding this transaction they will have to be conveyed to the company to be conveyed to the District. Remember, the value of this company and the wells and the land is what a willing buyer will pay a willing seller for them. Counting the bolts and valves and dickering over the worth of each item will not make this transaction occur in a timely manner!

In good faith my clients have offered to sell the system; your clients need to respond to that offer.

My clients offered to sell the water company, including the three wellsites and wells "as is, where is" for a lump sum which includes the value as a going concern. This offer is on the table until the drill rig arrives at the site. This weekend site preparation work will begin so that the drilling rig can come on site and the job get started. If your clients choose to wait more than 10 days after the offer was made to them and still not respond, that is their business, however, it indicates to my client that your clients have no sincere interest in purchasing the water system.

As to why a longer closing time if it is an asset sale only, that is simple. If my clients convey the wellsites and wells to the company and then transfer the stock to the District that does not require ACC approval. This can be done immediately. If they convey the assets separate from the company it will require ACC approval. This will take time, as you well know, and further, my clients would expect your clients to pay for the cost of obtaining that approval as a part of the closing costs of this transaction. Also, the cost of the new well, which my clients are required to drill will have to then be factored into the price. This will include both the actual cost of the drilling and equipping, but also the value of the well based upon its projected production.

Like I said before, the offer is on the table until the drilling rig arrives on the site, then the offer is withdrawn without any action on the part of my clients; it will be off the table at that point in time. The site prep work is starting, so the drill rig is coming. If the District has any interest in controlling their own water future they had best act now. With the new well in place it will be quite easy to "shop this company around", especially to entities who own other water companies in the area who might be interested in taking the surplus water out of Tonto Village for use in their other facilities as needed.

Time is moving on this transaction. I haven't asked for you to "show me the money" presuming that your clients will be able to finance the acquisition of this water system in a timely manner. But now I must ask, how long does the board anticipate it will take them to acquire the money to conclude the transaction? If your estimate is more than 30 days, it will not be possible for my clients to convey the system without having to drill the new well. This will change the price to account for this new well.

So get back to me ASAP regarding your clients' intentions in this matter.

Thanks.

John

> -----Original Message-----
> From: HARRY JONES
> Sent: Oct 3, 2008 11:16 AM
> To: John Gliege
> Subject: Re: Tonto Village
>
> John: I would expect the District will ask me to reply to your 9-22-08 communication shortly after their executive session and regular public Board meeting to be held on Tuesday, Oct. 7. To facilitate the Boards discussion and understanding, and as previously asked, can you explain the logic behind the $600,000 evaluation? How does that

compare to other known sales of water companies in similar physical shape, to going concern values, to asset values, to appraisals, etc.? Also, what is the reason for longer closing times for an asset purchase rather than a stock purchase?

Harry D. Jones
HDJ Management LLC
harryjoneshdj@msn.com
(928) 595-1111

----- Original Message -----
From: John Gliege
To: Harry Jones
Sent: Thursday, October 02, 2008 12:58 PM
Subject: Tonto Village

Harry, my clients are getting anxious to follow the corporation commission orders and drill the new well. They have a contract with a driller and are ready to give the Notice to Proceed. What is the status of your client's interest in acquiring the water system? John

Tonto Village
Domestic Water Improvement District
HC7, Box 363
Payson, AZ 85541

Phone: (928) 595-1111
FAX: (928) 474-2876

Directors and Officers:

Daryl Kilbourne, Chairman
Jerry Lewinson, Vice-Chairman
Gary Martin, Clerk/Secretary
DeWayne Stewart, Parliamentarian

Staff:

Harry D. Jones, District Manager
Linda Stailey, Administrative Assistant

October 13, 2008

Tonto Village Water Co.
C/o John Gliege, Legal Counsel
Gliege Law Offices, PLLC
P.O. Box 1388
Flagstaff, AZ 86002

By E-mail and U.S. Mail

Dear John:

The TVDWID Board has met to consider the proposal contained in your e-mail to Harry Jones dated 9-22-08. The Board has arrived at several conclusions:

- The price of $600,000 for the infrastructure in its existing state is extremely high in light of what other Rim Country improvement districts and towns are willing to pay. As you know, that per meter price is more than four times the offering price by the Pine/Strawberry Water Improvement District and more than twice the price the Town of Star Valley has offered, both offers made after extensive and expensive (over $35,000) engineering and appraisal studies that likely reflect the TVWC system being in the worst shape. Neither the Board or the public (property owners represented at the recent public Board meeting) believe this is a fair price, and are not prepared for such an expensive transaction considering the significant amount of capital investment it will take to make the infrastructure correct afterwards.
- Any delay or price differential caused by a stock sale, rather than an asset sale, is unacceptable in light of the contingent liabilities for health hazards, threatened ACC fines, required regulatory system upgrades, and OSHA violations we believe TVWC may face. The District is definitely interested in an "asset" only sale. A stock sale is not even a consideration.
- Not including well site #4, the new well, or other alternative sites for a new well, is a deal stopper. Based on your 10-3-08 e-mail to Harry Jones, we now understand there are different owners of the water system and of the land parcels that contain the wells, tanks, and electrical systems. If there are far reaching issues of ownership of the properties

necessary to provide for inclusion of existing and future well sites, or if your clients believe all the value is in the lands, the land owners must recognize there is large offsetting negative value in the water system itself (because of deferred maintenance, bad piping, and needing a new well). If this is the case, your clients need to work that out among themselves for a straight-forward transaction to be consummated. We cannot operate a water company without water and well sites

- A requirement of a close within 30 days for any price above our latest proposal is unworkable, especially considering we have not yet been able to enter into a firm agreement on basic terms. Also, we understand that there was some discussion at some point, between your clients and some Village property owners during a private meeting, implying that your clients would possibly carry a loan (paper). Flexible terms such as this would make it much easier to accommodate a 30 day transaction.
- Having your current clients or possible future owners of the water system even thinking about selling what they may believe is excess water from underneath the Village to other water systems without going through the costs and efforts of providing an assured 100 year adequacy of water to Tonto Village should not be used as a negotiating threat in this situation. Additionally, having the residents fund the development of the new well (within the purchase price or through rate increases) so TVWC can possibly sell water to others is outrageous. This issue will most certainly be highlighted to the ACC in future correspondence from the District.

John, these types of terms and perceived threats of selling water outside the District again show the apparent unwillingness of your clients to face the facts related to the condition and value of the assets, and the lack of going concern value of TVWC. And it reflects total disregard for any commitment to ensure this transaction is ever completed. At the initial private meeting between your clients and select property owners, there was apparently some expectations (explicit and implied) set. The Board was put in place as requested. So now, we would expect the other expectations to be honored. Otherwise, the TVDWID Board formation will have been in vain, and the property owner's taxpayer money wasted. If there are any terms (from the Board's perspective) that conflict with these original expectations, we would be interested in knowing what they are.

In addition, let us emphasize a few key points, some new and some previously explained in other communications that reflect our current perspective:

- Large investments must be made in the infrastructure regardless of owner (current owners, other operators, or the District) to meet ACC and ADEQ and OSHA regulatory requirements designed to assure delivery of adequate, safe, and reliable water and to assure a safe working environment. The cost of the ACC required well and the cost of having proper control over the chlorination systems (for which ADEQ required warning letters to consumers as included with last months bills) are prime examples of the necessary investments that must be made now and in the future. The Company taking advice from Brooke Utilities about how to make repairs to the large amount of thin walled leaky pipe is not necessarily comforting, considering their reputation.
- The District will do what it said in its letter of September 14, 2008 which was to communicate to the ACC our serious concerns related to (a) the status of the limited

negotiations and how far away we apparently are from making a "deal", (b) what is apparently occurring in terms of progress towards improved system reliability and a new well being installed, (c) the status of the health and safety issues with the residents and ADEQ, and (d) our desire to have very close ACC staff or outside consultant supervision of design criteria, material specifications, location, installation procedures, etc. for any major repairs, new wells, or additions to plant and equipment for which the Company would likely attempt to seek cost recovery through increases in rates. When this letter is prepared, we will forward a copy to you.

- The District's proposal is still on the table. We believe the District remains the most logical buyer and the potential buyer most willing to accept the huge risk related to required future improvements necessary to bring the water system up to a reasonable municipal standard. And remember, the TVWC owners are the ones that originally asked for a Board to be appointed in preparation for such a transaction.
- The District will continue to move forward with WIFA and or USDA Rural Development grant and loan applications in anticipation that future opportunities for acquisition of the water system may occur.
- Over the next few months, the District plans to take a "wait and see" approach until we see how your clients choose to timely and adequately handle the very serious issues of availability of adequate water resources and the immediate concerns of residents and ADEQ related to water quality, resident health, system reliability, and operator safety. If your clients ultimately make a decision to move forward to manage their own operations, or if it is sold to another potential buyer willing to shoulder the required improvements, the residents may be satisfied; however, you should clearly recognize the fact the residents are very determined to make sure they receive adequate and safe water service from a reliable infrastructure that can accommodate expected growth at a fair operating cost to themselves and the Company. If satisfactory service at a fair price is ultimately obtained from TVWC or other owners, everyone's goals would have been met and the Board can scale back to a "watch-dog" group.
- The District applauds and appreciates the recent efforts of the Company to acknowledge and correct certain deficiencies (chlorine controls, main line re-alignment, etc.) and the apparent commitment towards required improvements such as a new well. All these actions go a long way towards a positive public opinion and trust in the company. But just so you know, the general consensus is that all this is happening (at least in part) as a result of the recent attention by the Board's ACC intervention and other private citizen's efforts with the ACC and ADEQ. So there seems to be value in the recent Board intervention and property owner's efforts, as well as any taxpayer money spent.

If you or your clients have any further questions or concerns, please call or write.

Cordially,

For the Tonto Village Domestic Water Improvement District Board of Directors

By Harry D. Jones
District Manager

Janet Napolitano
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov

Stephen A. Owens
Director

October 6, 2008

Tonto Village Water Company, Inc.
Attn: Ronald Standage
P.O. Box 9116
Mesa, Arizona 85204

RE: Inspection Results for Tonto Village Water Company, Inc.
Public Water System (PWS) AZ0404023
ICE Database Inspection Identification Number 128576

Dear Mr. Standage:

On August 28, 2008, an inspection of the Tonto Village Water Company, Inc. water system was performed to evaluate the site's compliance with the Arizona Revised Statute (A.R.S.) §49-351 et seq. and Arizona Administrative Code A.A. C. R18-4-101 et seq and A.A.C. R18-5-101 et seq.

Potential deficiencies were noted during the course of the inspection, so additional correspondence regarding the inspection may be forthcoming. ADEQ will provide monthly updates on the status of any agency action resulting from the inspection as required by A.R.S. §41-1009(H).

If you have any questions regarding the enclosed report, please feel free to contact me directly at (602) 771-4441, or by e-mail at berry.karen@azdeq.com

Sincerely,

Karen Berry
Environmental Engineering Specialist
Water Quality Field Services Unit

cc: Gila County Health Department, 1400 East Ash Street, Globe, AZ 85501
John Calkins, Drinking Water Section Manager, ADEQ Water Quality Division
Laurie Gehlsen, Drinking Water SDWIS Coordinator

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
WATER QUALITY DIVISION - COMPLIANCE SECTION
FIELD SERVICES UNIT
INSPECTION REPORT-DRINKING WATER

Facility: Tonto Village Water Company, Inc.

System No: AZ0404023

Inspected By: Karen Berry

Inspection Date: August 28, 2008

Accompanied By: Rebecca Standage

County: Gila

Number of Plants/Wells: 3/3

System Grade: Grade 1 Treatment, Grade 1 Distribution

Certified Operator: Doug Thorne

Operator Grade: Grade 4 Treatment, Grade 4 Distribution

Population/Service Connections: 300/189

The system is in compliance with the following ADEQ requirements:

		YES	NO	N/A	UNKNOWN
1.	A certified operator is employed by the owner per ADEQ regulations.	X			
2.	The system meets ADEQ monitoring and reporting requirements.		X		
3.	This system meets ADEQ requirements for operation and maintenance of the physical facilities.		X		

Inspection Purpose and Scope:

This was an announced routine inspection to determine the facilities compliance status under Arizona Administrative Code (A.C.C.) R18-4-101 et seq and A.A.C. R18-5-101 et seq.

Facility Description:

This is a community water system serving the Tonto Village community near Payson, Arizona. The system consists of three wells equipped with pellet chlorinators, three storage tanks, three hydropneumatic pressure tanks, booster pumps, and a distribution system

Physical Inspection.

EPDS001 consists of well 55-637909, a hydropneumatic pressure tank, and a 10,000 gallon storage tank. The well was fitted with a pellet chlorinator. The components are located within a locked, fenced enclosure, near the Shelby School.

EPDS002 consists of well 55-627911, equipped with a pellet chlorinator, a hydropneumatic pressure tank, and a 32,000 gallon storage tank. The components are located within a locked, fenced enclosure approximately ¼ mile west of EPDS001.

EPDS003 consists of well 55-627912, a pellet chlorinator, hydropneumatic pressure tank, and a 10,000 gallon storage tank. The well slab which was broken up and in poor repair during the last inspection ( ) has been replaced with a new well slab.

As allegations of excessive chlorine use were received by ADEQ, chlorine test strips were used within the distribution system to determine if the residual chlorine levels were within the requirements. A trace chlorine residual (less than 0.5milligrams/liter (mg/l)) was found in the distribution system near EPDS003. A residual chlorine level in the distribution system taken at the Fire Station found the chlorine level to be greater than 4 milligrams/liter, closer to 10 on the color scale. Rebecca Standage was immediately notified, and the residual chlorine levels at EPDS002 were checked. A residual chlorine reading was taken at the storage tank at EPDS002, which indicated no residual. A reading was taken from the tap at the wellsite, which also indicated no chlorine. Investigation of the pellet chlorinator found it to be jammed.

A chlorine reading was taken from a home near the Shelby School, which is in the distribution system for EPDS001. The chlorine residual reading was greater than 4mg/l, closer to 10mg/l on the color scale. A residual chlorine reading was performed using the Hach colorimeter test kit, which confirmed the chlorine level well exceeded 4 mg/l. EPDS001 was immediately removed from the distribution system by closing the entry valve.

A residual chlorine reading was taken at the Shelby School, which was found to exceed 4mg/l, closer to 10 on the color scale of the test strips.

Ms. Standage was instructed to take chlorine residual readings throughout the distribution system on a routine basis to determine the actual chlorine level.

Tonto Village Water Company provided a narrative of the response to the excess chlorine residual. In the narrative, the company states EPDS001 was removed from the distribution system, the pellet chlorinator was detached, the lines were flushed, and the storage tank was half emptied and refilled with water from well 55-637909 (with the pellet chlorinator detached). System representatives have been taking residual chlorine readings throughout the distribution system, and by September 15, 2008, the levels were reported to be 2mg/l or below.

Notification was provided to Ms. Standage on August 29, 2008 that the system will be required to post public notice for exceeding the MCL for chlorine, and that the public notice must be done within 1 month. Tonto Village Water Co, Inc provided a copy of the public notice posted September 10, 2008.

Monitoring and Reporting

This system participates in the Monitoring Assistance Program (MAP). Therefore, the system is only required to obtain distribution system samples, and any increased monitoring parameters identified through MAP sampling. MAP samples for regulated volatile organic chemicals (VOCs), regulated synthetic organic chemicals (SOCs), and regulated inorganic chemicals (IOCs). Because of the efficiency of the program and the cost-effectiveness of the economies of scale involved, the program was expanded in recent years to include asbestos, radionuclides, nitrite, nitrate, sulfate (in the past) and nickel.

The following is a summary of the status of the sampling Tonto Village Water Company is responsible for:

Total Coliform
No deficiencies were noted in the monthly total coliform monitoring and reporting. Total coliform reports have been submitted to ADEQ in a timely fashion.

Lead and Copper
No deficiencies were noted in the annual lead and copper monitoring and reporting.

Disinfection By Products
No deficiencies were noted in the annual disinfection by product monitoring and reporting.

Maximum Residual Disinfection Level
During the inspection, the level of residual chlorine in the distribution system exceeded 4.0 milligrams per liter, which is the maximum residual disinfection level. The system does not have an approved plan for taking the disinfection byproduct samples and maximum residual disinfection level samples. A plan will be required to be developed for monitoring the disinfection by products and maximum residual disinfection levels.

Consumer Confidence Report
No deficiencies were noted in submission of the annual Consumer Confidence Report.

Compliance Summary

1. Monitoring and Reporting Requirements. The facility is not in compliance with monitoring and reporting requirements. See section above.

2. Operator Certification Requirements. The facility is classified as a Grade 1 treatment and Grade 1 distribution system, and the facilities operator, Doug Thorne, is a Grade 4 Treatment and Grade 4 Distribution system Certified Operator. His certifications expire on July 31, 2010.

3. Operation & Maintenance (O&M) Requirements. The facility was not in compliance with the operation and maintenance requirements of the system.

Company Name: TONTO VILLAGE WATER CO.	Test Year End

ARIZONA CORPORATION COMMISSION

ORIGINAL

NEW APPLICATION

RATE APPLICATION FOR WATER COMPANIES WITH ANNUAL GROSS OPERATING REVENUES (INCLUDING REQUESTED RATE RELIEF) OF LESS THAN $250,000 PER ARIZONA ADMINISTRATIVE CODE R14-2-103

Details at website: www.cc.state.az.us

Arizona Corporation Commission
DOCKETED

DEC 27 2007

DOCKETED BY

Tonto Village Water Co., Inc.
UTILITY NAME

W-01580A-07-0707
DOCKET NO(S).

December 31, 2006
TEST YEAR ENDED

RECEIVED
2007 DEC 27 A 9 11
AZ CORP COMMISSION
DOCKET CONTROL

Required invoices to be submitted are listed in the checklist on page 1.

You must complete ALL items in the application according to the instructions provided. If you have any questions regarding the application, call the Chief of Accounting and Rates at (602) 542-0743 for Staff assistance or see our website at: www.cc.state.az.us

IN ORDER TO PROCESS YOUR APPLICATION
FORWARD THE ORIGINAL AND FIFTEEN COPIES OF THE
APPLICATION AND COVER SHEET PLUS THREE
PACKETS WITH COPIES OF
CHECKLIST ITEMS 5-11 (PAGE 1)
TO DOCKET CONTROL CENTER
1200 WEST WASHINGTON STREET
PHOENIX, ARIZONA 85007

Note: Please refer to the checklist on page 1 for the required attachments.

Company Name: TONTO VILLAGE WATER CO.	Test Year Ended: December 31, 2006

Plant Summary

Acct. No.	Description	Plant in Service Per Prior Decision	Total Additions	Total Retirements	Test Year End Total
		Column A	*Column B*	*Column C*	*Column D**
301	Organization	0	0	0	0
302	Franchises	0	0	0	0
303	Land & Land Rights	3,466	0	0	3,466
304	Structures & Improvements	3,064	340	0	3,404
307	Wells & Springs	9,340	0	0	9,340
311	Pumping Equipment	11,121	7,200	4,386	13,935
320	Water Treatment Equipment	2,780	0	0	0
320.1	Water Treatment Plants	0	0	0	0
320.2	Solution Chemical Feeders	0	1,522	990	3,312
330	Distribution Reservoirs & Standpipes	26,431	0	0	0
330.1	Storage Tanks	0	0	0	0
330.2	Pressure Tanks	0	0	0	26,431
331	Transmission & Distrib. Mains	46,101	0	0	46,101
333	Services	0	0	0	0
334	Meters & Meter Installations	7,600	667	730	7,537
335	Hydrants	0	0	0	0
336	Backflow Prevention Devices	0	0	0	0
339	Other Plant & Misc. Equipment	0	0	0	0
340	Office Furniture & Equipment	0	0	0	0
340.1	Computers & Software	2,079	0	0	2,079
341	Transportation Equipment	0	0	0	0
343	Tools, Shop & Garage Equip.	0	0	0	0
344	Laboratory Equipment	0	0	0	0
345	Power Operated Equipment	0	0	0	0
346	Communication Equipment	0	0	0	0
347	Miscellaneous Equipment	0	0	0	0
348	Other Tangible Plant	0	0	0	0
	TOTAL WATER PLANT	111,982	9,729	6,106	115,605

Note: Please refer to the checklist on page 1 for the required attachments related to this schedule

** Column D = Column A + Column B – Column C*

Company Name: TONTO VILLAGE WATER CO.	Test Year Ended: December 31, 2006

UTILITY PLANT IN SERVICE

Acct. No.	Description	Original Cost	Accumulated Depreciation	OCLD
		Column A	*Column B*	*Column C***
01	Organization	0	0	0
302	Franchises	0	0	0
303	Land & Land Rights ←	3,466	N/A	3,466
304	Structures & Improvements	3,064	2,600	464
307	Wells & Springs ←	9,340	7,926	1,414
311	Pumping Equipment	13,935	13,247	688
320	Water Treatment Equipment	0	0	0
320.1	Water Treatment Plants	0	0	0
320.2	Solution Chemical Feeders	3,312	3,312	0
330	Distribution Reservoirs & Standpipes	0	0	0
330.1	Storage Tanks	0	0	0
330.2	Pressure Tanks	26,431	23,755	2,676
331	Transmission & Distrib. Mains	46,101	37,284	8,817
333	Services	0	0	0
334	Meters & Meter Installations	7,546	7,546	0
335	Hydrants	0	0	0
336	Backflow Prevention Devices	0	0	0
339	Other Plant & Misc. Equipment	0	0	0
340	Office Furniture & Equipment	0	0	0
340.1	Computers & Software	2,079	2,079	0
341	Transportation Equipment	0	0	0
343	Tools, Shop & Garage Equip.	0	0	0
344	Laboratory Equipment	0	0	0
345	Power Operated Equipment	0	0	0
346	Communication Equipment	0	0	0
347	Miscellaneous Equipment	0	0	0
348	Other Tangible Plant	0	0	0
	TOTAL WATER PLANT	115,274	97,749	17,525

**** Must be the same as the amount reported on page 20***

***** Column C = Column A - Column B***

Company Name: **TONTO VILLAGE WATER CO.**	Test Year Ended: **December 31, 2006**

Acct. No.	OPERATING REVENUES	PRIOR YEAR	TEST YEAR
461	Metered Water Revenue	**26,127**	**35,155**
460	Unmetered Water Revenue	**0**	**0**
474	Other Water Revenues	**3,324**	**4,235**
	TOTAL OPERATING REVENUES	**29,451**	**39,390**
	OPERATING EXPENSES		
601	Salaries and Wages (See page 1, item 4)	**6,600**	**6,600**
610	Purchased Water (See page 1, item 5) ⟶	**0**	**0**
615	Purchased Power (See page 1, item 6)	**4,329**	**3,655**
618	Chemicals	**636**	**1,865**
620	Repairs and Maintenance (See page 1, item 7)	**8,140**	**11,486**
621	Office Supplies and Expense	**2,159**	**2,359**
630	Outside Services (See page 1, item 8)	**4,735**	**4,915**
635	Water Testing (See page 1, item 9)	**415**	**2,248**
641	Rents	**0**	
650	Transportation Expenses	**560**	**3,301**
657	Insurance - General Liability	**0**	**0**
659	Insurance - Health and Life	**0**	**0**
666	Regulatory Commission Expense - Rate Case	**0**	**0**
675	Miscellaneous Expense	**325**	**318**
403	Depreciation Expense (From page 20)	**5,539**	**5,665**
40 8	Taxes Other Than Income	**620**	**489**
408.11	Property Taxes (See page 1, item 10)	**1,401**	**1,368**
409	Income Tax	**45**	**45**
	TOTAL OPERATING EXPENSES	**35,504**	**44,314**
	OPERATING INCOME/(LOSS)	**(6,053)**	**(4,924)**
	OTHER INCOME/(EXPENSE)		
419	Interest and Dividend Income	**0**	**0**
421	Non-Utility Income	**0**	**0**
426	Miscellaneous Non-Utility Expenses	**0**	**0**
427	Interest Expense	**0**	**0**
	TOTAL OTHER INCOME/(EXPENSE)	**0**	**0**
	NET INCOME/(LOSS)	**(6,053)**	**(4,924)**

Note: Do not include sales tax in revenue or expense. Please refer to the checklist on page 1 for the required attachments related to this schedule.

** This number must be identical to the number entered on page 6 "total operating revenues."*

Company Name: TONTO VILLAGE WATER CO.	Test Year Ended: December 31, 2006

CALCULATION OF DEPRECIATION EXPENSE

Acct. No	Description	Original Cost	Depreciation Percentage	Depreciation Expense
		Column A	*Column B*	*Column C**
301	Organization	0		0
302	Franchises	0		0
303	Land & Land Rights	3,466		0
304	Structures & Improvements	3,064	3.330	102
307	Wells & Springs	9,340	3.330	311
311	Pumping Equipment	13,935	12.500	1,742
320	Water Treatment Equipment	0		0
320.1	Water Treatment Plants	0	3.330	0
320.2	Solution Chemical Feeders	3,312	20.000	662
330	Distribution Reservoirs & Standpipes	0		0
330.1	Storage Tanks	0	2.220	0
330.2	Pressure Tanks	26,431	5.000	1,322
331	Transmission & Distrib. Mains	46,101	2.000	922
333	Services	0	3.330	0
334	Meters & Meter Installations	7,546	8.330	604
335	Hydrants	0	2.000	0
336	Backflow Prevention Devices	0	6.670	0
339	Other Plant & Misc. Equipment	0	6.670	0
340	Office Furniture & Equipment	0	6.670	0
340.1	Computers & Software	2,079	20.000	0
341	Transportation Equipment	0	20.000	0
343	Tools, Shop & Garage Equip.	0	5.000	0
344	Laboratory Equipment	0	10.000	0
345	Power Operated Equipment	0	5.000	0
346	Communication Equipment	0	10.000	0
347	Miscellaneous Equipment	0	10.000	0
348	Other Tangible Plant	0		0
	TOTAL WATER PLANT	115,274		5,665

Note: Use Test Year ending balances for column 1, and approved depreciation rates from the prior rate case in column 2.
**Column C = Column A x Column B*

Company Name: TONTO VILLAGE WATER CO.	Test Year Ended: December 31, 2006

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF TEST YEAR	BALANCE AT END OF TEST YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	(3,723)	(8,638)
134	Working Funds	0	0
135	Temporary Cash Investments	0	0
141	Customer Accounts Receivable	2,469	2,894
146	Notes/Receivables from Associated Companies	0	0
151	Plant Material and Supplies	0	0
162	Prepayments	1,363	1,758
174	Miscellaneous Current and Accrued Assets	0	0
	TOTAL CURRENT AND ACCRUED ASSETS	109	(3,986)
	FIXED ASSETS		
101	Utility Plant in Service	114,703	115,274
103	Property Held for Future Use	0	0
105	Construction Work in Progress	0	0
108	Accumulated Depreciation - Utility Plant ("AD-UP")	(92,085)	(97,749)
121	Non-Utility Property	0	0
122	Accumulated Depreciation - Non Utility ("AD-NU")	0	0
	TOTAL FIXED ASSETS	22,618	17,525
	TOTAL ASSETS	22,727	13,539

Note. Total Assets on this page should equal the sum of Total Liabilities and Total Capital on page 22. Also, numbers in parentheses should be subtracted. For example, Accounts 108 and 122 should be subtracted from Total Fixed Assets.

** Must equal page 15, original cost*
*** Must equal page 15, accumulated depreciation*

TONTO VILLAGE WATER CO., INC.
CUSTOMER INFORMATION

Tonto Village, Arizona September 2008

Commencing with customers' statements for water services for the month of August, 2008, Tonto Village Water Co., Inc. (Company) will be enclosing in future billings general and specific information which may be of interest to our customers.

GENERAL CONTACT INFORMATION:

To contact Company: By telephone: (928) 978-4318
By e-mail: tvwc@tvwc.biz
Company website: tvwc.biz

By Mail: P. O. Box 9116
Mesa, AZ 85214-9116

PROPERTY TAXES: Customers, who are also property owners within Tonto Village, will soon be receiving annual property tax statements for 2009. Any questions concerning an assessment to the Tonto Village Domestic Water Improvement District should be directed to the District, (928) 951-0533. Please do not contact the Company concerning this assessment. The Company receives no part of these property taxes.

HOW TO READ TARGETS ON TANKS: We have had customers inform us in error that the storage tanks were empty. For the benefit of our customers who may be interested in the water levels in the tanks:

If the Target is on the BOTTOM: The tank is FULL.
If the Target is on the TOP: The tank is EMPTY.

CHLORINATION OF WATER: The Company chlorinates the system's water in the wells immediately prior to pumping into storage tanks. Recently the Company experienced a mechanical malfunction of a chlorinator and our customers' water presented excessive chlorine. ADEQ was made aware of the situation. The affected well was immediately taken off line, a distribution line was flushed, the stored water was diluted, and the chlorinator was repaired. This well is now back online and your water is monitored closely for chlorine levels. Concurrent with this newsletter you are receiving an ADEQ approved Nonacute Level 1 (30 day) public notice concerning this incident.

RECENT DISRUPTION IN WATER SERVICE: On Thursday/Friday September 4th & 5th our customers experienced varying degrees of disruption in water service. This was the direct result of the Company's responding to a customer's request to realign a 4" water main encroaching on a corner portion of his property to the dedicated easement adjacent thereto. In response to customers' inquiries of whether the Company was responding to repair a leak, the answer was no; there was no leak in the waterline. Customers anticipated to be affected for more than four hours were notified in writing 2-3 weeks in advance of the projected disruption. The Company extends its thanks to Shepherd Plumbing for its excellent service and to Brooke Utilities for sharing its expertise.

NOTICE OF NEW WATER SOURCE: Pursuant to a requirement of the Arizona Corporation Commission, the Company will be installing its "planned new water source" by December 31, 2008. More details of this improvement will be forthcoming. The Company acknowledges and appreciates the consent, verbal and/or written, of the District to the Commission on July 30, 2008 by Harry Jones (Manager), Jerry Lewinson, (Boardmember and Intervenor), and James Widger and Jake Garrett (Intervenors). BASED ON NO INTERFERENCE WITH PERFORMANCE AND LOCATION OF CURRENT WELLS AND AQUIFERS.

QUESTIONS? If a customer has questions which may be of general interest to other customers, please forward your questions in writing, by mail or e-mail, to the Company. Questions from verifiable customers will receive responses in future newsletters. Questions must be in writing, submitted by an identifiable customer of record, and signed. Customers will be identified unless requested that names be withheld.

TONTO VILLAGE WATER CO., INC.
CUSTOMER INFORMATION

Tonto Village, Arizona October 2008

The owners of Tonto Village Water Co., Inc. acknowledge and appreciate the support and kind words expressed by customers in support of their efforts to provide safe, reliable and adequate water for the residents of Tonto Village and in their on-going progress to sell the water company.

GENERAL CONTACT INFORMATION:

To contact Company: By telephone: (928) 978-4318
By e-mail: tvwc@tvwc.biz
Company website: tvwc.biz

By Mail: P. O. Box 1777
Chandler, AZ 85224

NOTE CHANGE OF MAILING ADDRESS: Effective immediately, the mailing address for payments has been changed as noted above. Until further notice, please continue to make your payments payable to Tonto Village Water Co., Inc.

PROPERTY TAXES: Customers, who are also property owners within Tonto Village, will soon be receiving annual property tax statements for 2009. Any questions concerning an assessment to the Tonto Village Domestic Water Improvement District should be directed to the District, (928) 951-0533. Please do not contact the Company concerning this assessment. The Company receives no part of these property taxes.

ITEMS OF INTEREST:

1. **Well Output**: It appears that some residents are of the belief that Well #1 is not a significant producer of water for customers. Although Well #1 was overpumped in 2004, it quickly recovered and has been an important water source for the Company since 2005. Following are well productions for the months of May – August, 2008, the months of highest customer water demand:

	No. 1	No. 2	No. 3	Total
May	190,600	207,050	226,280	623,930
June	263,710	424,970	437,800	1,126,480
July	117,780	260,300	243,900	621,980
August	178,300	79,180	390,430	647,910
Totals	**750,390**	**971,500**	**1,298,410**	**3,020,300**

Note: All wells are not necessarily on-line at the same time; at any given time there may be 1 – 3 wells on-line. For examples, #1 may service TV1 & 2 ; #2 may service TV1, 2, & 3; #3 may service TV1, 2, & 3; #s 1 & 2 may service TV1, 2, & 3; #s 1 & 3 may service V1, 2, & 3. Well/s may be taken off line for a number of reasons with the remaining well/wells providing full service to the Village.

2. **Expertise Recently Shared by Brooke Utilities**. Brooke Utilities is the owner of a number of small water utility companies in rural Arizona. These companies service a number of older developments, including subdivisions that contain the same type of waterlines installed in Tonto Villages 1 and 2. Although these types of waterlines were commonly installed in subdivisions developed in the 1950's and 1960's, they are not used in newer water distribution systems. Tonto Village 3, developed in 1978, utilizes PVC waterlines. The Company has approximately 15,000 linear feet of waterlines within Tonto Village, of which about 43% are PVC. Brooke Utilities in the course of servicing their customers has developed specific methods and special parts necessary to repair and/or connect the older type of waterlines to newer lines of PVC. In the company's recent realignment of a 4" waterline, Brooke Utilities provided specially crafted couplings/gaskets which joined the older pipe to PVC pipe.

(Over)

Items of Interest, continued:

3. **Highest Water Users during season of peak demand**: In response to customers' curiosity, following are the ten highest water users for the months of May – August, 2008:

Place	MAY, 2008 Usage (gal)	MAY, 2008 Charge ($)	JUNE, 2008 Usage (gal)	JUNE, 2008 Charge ($)	JULY, 2008 Usage (gal)	JULY, 2008 Charge ($)	AUGUST, 2008 Usage (gal)	AUGUST, 2008 Charge ($)
1	15,470	54.88	43,550	159.83	23,230	70.29	18,190	65.05
2	15,420	54.70	41,290	151.40	13,750	48.46	16,860	60.08
3	13,960	49.24	27,800	100.97	13,190	46.37	13,530	47.65
4	12,880	45.20	24,450	88.46	12,900	45.28	10,460	36.17
5	12,480	43.71	22,610	81.58	12,670	44.42	10,250	35.39
6	11,840	41.32	20,460	73.54	12,430	43.52	10,220	35.27
7	10,520	36.39	17,540	62.63	11,770	41.07	9,330	31.95
8	10,410	35.98	16,720	59.56	10,230	35.30	9,330	31.95
9	10,140	34.97	16,370	58.26	9,980	34.37	9,270	31.71
10	9,640	33.10	15,540	55.15	9,690	33.29	8,980	30.63

4. **New Water Source:** The owners of the Company will be drilling a new, improved, deeper well on Wellsite #2. Customers have observed recent activity at this wellsite prepatory to receiving the drilling rig. The installation of this well is pursuant to a requirement of the Arizona Corporation Commission issued after Well #1 was overpumped and despite recovery of the well (See Item #1 above). Due to the inability to improve the well at Wellsite #1, a decision was made three years ago to improve the well on Wellsite #2. At Wellsite #2, the improved well will enable the Company to refill its largest storage tank more quickly, thus providing increased storage capacity.

"NEW" OR JUST AN IMPROVEMENT TO THE EXISTING WELL? ACC ORDERED A "NEW" WELL!

QUESTIONS? If a customer has questions which may be of general interest to other customers, please forward your questions in writing, by mail or e-mail, to the Company. Questions were received after preparation of this newsletter and will be addressed in the next newsletter. To receive responses in a newsletter, questions must be in writing, submitted by an identifiable customer of record, and signed. Customers may be identified unless requested that names be withheld. The Company reserves the right to decide which questions are of general interest and merit inclusion in the newsletter.